



Delegated decision report

DECISION UNDER DELEGATED POWERS

**DECISION CANNOT BE TAKEN BEFORE TUESDAY,
19 MARCH 2013**

Title	INTRODUCTION OF A LOCAL AUTHORITY MORTGAGE SCHEME/ FIRST TIME BUYER FUND
Report Author	REPORT TO THE CABINET MEMBER FOR COMMUNITY WELLBEING AND SOCIAL CARE

PURPOSE

1. This report seeks to introduce a £1m Local Authority Mortgage Scheme (LAMS) to assist First-Time buyers onto the housing ladder by addressing a significant barrier to home ownership: namely the problems that many buyers can have in raising a sufficient level of deposit to enable them to access a mortgage. The initiative will also deliver wider benefits to the property market and wider local economy as well as freeing up rented homes in the social and private sector.

OUTCOMES

2. The scheme will help Island residents take initial steps onto the housing ladder by helping to bridge the gap between the deposit that home-seeking residents are able to raise and that required by banks and building societies to approve a mortgage. The scheme will fill an existing 'gap' as it is specifically aimed at first time buyers - who can afford mortgage payments but not the initial deposit - to purchase second hand properties on the open housing market.
3. By seeking to address this significant barrier to home ownership, the scheme will not only allow a greater number of Island residents to own their own home, but will also free up social and private sector rented housing for other families on the Island who are not yet in a position to secure home ownership. Therefore, it is considered that the scheme could potentially make a real difference and have significant knock-on benefits for the Island's housing market and the local economy as a whole.

BACKGROUND

4. The on-going financial climate and banking market restrictions have had a significant impact on Island resident's ability to access the local housing market. These constraints are a particular problem for first-time buyers, especially those unable to provide the increased deposits now required to access a mortgage.

5. However, aspirations for home-ownership levels are high, especially for younger people and families, and that 81 per cent of British adults hope to be home-owners in ten years' time, and 74 per cent aspire to become so within two years.
6. The national picture suggests that most of those who are renting privately or sharing with family or friends are under 35, and more than half of these (54 per cent), would like to become home-owners over the short term. However, only a third of those who hope to be home-owners in two years' time actually expect it to happen. According to the Building Societies Association (BSA), a quarter of prospective first-time buyers believe it will take them at least ten years to have a deposit in place and 20 per cent believe they will still be renting or living with family in 2022.
7. Whilst mortgage insurance, shared ownership, and product innovation can all potentially play a part, none will provide a "magic bullet" to open up the mortgage market for first-time buyers. This will continue to be a gradual process as confidence in funding markets and lending decisions is restored in the light of a more stable market environment. However, the preference for low loan-to-value mortgages is likely to continue to restrict first time buyers with a lower deposit in the current financial environment.
8. Therefore, a major concern is still the low percentage of first time buyers being able to raise the increased deposits required by lenders' and this problem is contributing to the restricted potential for movement in other areas of the housing ladder.
9. Supporting the housing market is an integral part of both the Government's and the Isle of Wight Council's wider economic growth agenda. The Government has supplemented its housing strategy with a number of measures to boost house building and to help people buy new-build homes: for example, the First Buy scheme and a debt guarantee scheme. The LAMs initiative will supplement these initiatives by supporting the second-hand housing market which the other schemes do not cover.
10. Another key policy development for the UK economy was the launch in August 2012 of the Funding for Lending Scheme (FLS). These, alongside a number of other initiatives, are playing an important role in shaping the near-term profile of housing and mortgage market activity.

Current Financial restraints to home ownership

11. Currently, most mortgage lenders are only prepared to lend a maximum of 75 per cent – 80 per cent loan to value (LTV), even if the applicant can afford a 95 per cent mortgage. Whilst some 95 per cent mortgages are re-appearing in the market, on closer inspection, most are not available for first time buyers or have additional restrictions. This means that the applicant still requires a substantial deposit to secure a mortgage. Therefore, a first-time buyer purchasing a property valued at £150,000 would have to provide a deposit in the region of £30,000. Many potential first time home-buyers simply do not have the funds needed for the deposit.
12. Increasing the supply of affordable/social housing is a key corporate priority for the Isle of Wight Council, and the Safe and Secure Homes team are proactively working in that field. However, many potential home-buyers who could potentially move on

have to remain in either social/affordable or private rented accommodation because of the difficulties in obtaining an affordable mortgage. Therefore, this factor is significant in reducing the supply and availability of affordable rented housing for those who may have a greater need.

13. As a result of the recession and its impact on the housing market, the Council is already taking a proactive approach to supporting need, addressing pressing issues and to increase the supply of affordable housing. Also, part of their remit to ensure a balanced housing market, Safe and Secure Homes are also working to increase the provision of general needs open market Homes (for example: by supporting the Pan Meadows and West Wight School project).
14. To address the shortage in supply of affordable housing to those who need it, and to help the housing market and the local economy in general, a number of Local Authorities have considered issuing mortgages to potential home-buyers. However, the Council has limited financial resources available for this purpose, and also has limited staffing resources and expertise in this area to manage such a scheme. There would also be considerable operational risks attached to entering into the area of residential mortgage activity.
15. Therefore, rather than entering into the residential mortgage market, the Isle of Wight Council has explored the possibility of entering into a partnership with residential mortgage lenders to set up a Local Authority Mortgage Scheme (LAMS)
16. The scheme has been designed to enable the Council to work in partnership, and at the same time taking advantage of the expertise already available from existing mortgage providers. This will have the advantage of minimising the financial impact on the Council. A full overview of LAMS and how it works is attached in Appendix A, and is briefly discussed below.
 - The Local Authority Mortgage Scheme is designed to help increase the supply of affordable housing for those who need it, to help the local housing market and thereby the local economy.
 - The scheme requires the Council to provide a financial indemnity of up to 20 per cent of a mortgage for potential home-buyers who qualify for Local Authority support, and who meet the strict lending criteria set by the lender.
 - Under the scheme, the Council will lodge £1 million surety with a high street bank or building society for a five year period. The Council would be paid interest in the investment and this sum would be returned to the local authority – less any money that has been used through acting as guarantee to any mortgage defaulters – at the end of five years
 - The scheme does NOT promote reckless lending or provide un-affordable mortgages: it simply reduces the value of deposit currently required. Safeguards are put in place to protect the Council's interests and minimise the risks of defaulting by ensuring that mortgages are only granted to those potential homeowners who are clearly able to meet the monthly payments.
 - The scheme was launched nationally in March 2011, and mortgages were initially launched in Blackpool and Warrington. A further 42 Local Authorities

have since started providing mortgages within their area, and approximately 35 more plan to launch during early 2013.

17. If a decision is taken to introduce the LAMS scheme to the Island it is estimated that it will take between 8 – 12 weeks to finalise and go live - depending on the speed of which we can move through our internal sign off processes.
18. The introduction of a LAMS first-time buyer fund will enable the Isle of Wight Council to make a significant contribution to further easing the housing affordability situation on the island by enabling increased purchase opportunities for second-hand homes.

STRATEGIC CONTEXT

19. Safe and Secure Homes are tasked with ensuring balanced housing market, and for facilitating the provision of a mix of housing types and tenures to meet the needs of island residents.
20. The introduction of a LAMS will assist in meeting the following Eco Island themes and priorities to :
 - Support economic development and regeneration,
 - Support vulnerable people to live independent lives;
 - Ensure people of all ages have places to live and things to do in their local area.

CONSULTATION

21. Consultation has been undertaken with relevant colleagues within the Council. It has not been considered that external consultation is required at this time.

FINANCIAL / BUDGET IMPLICATIONS

22. The Council has recently agreed a capital programme which includes £2.23 million of investment in housing. As has been exemplified in the budget paper approved by Council on 27 February 2013, it is being proposed that £1 million of this is allocated to a First Time Buyer Fund to help Island residents take the initial steps onto the housing ladder.
23. Under the scheme, first time buyers seeking to purchase a second-hand home on the Island would only need a five per cent deposit to buy their first home, with the Council (through an agreed bank(s) / building society(s)) indemnifying a further 20 per cent, giving these buyers access to lower mortgage rates than they would normally have with a small deposit. Prospective buyers would still need to be able to afford their mortgage repayments, but would not need to first of all save the large deposit that lenders now ask for, with 20-25 per cent of the price of a property being common place in the current market. It is estimated that the scheme will initially help around 40 first-time buyers onto the housing ladder, although if successful the returned surety could be subsequently reinvested in support of additional home purchasers on the Island.

24. The Council is currently working with Sector Treasury Services to explore how a preferred partner lender(s) (a bank or building society) would deliver the scheme on the Council's behalf to Island residents. Under the scheme, the Council will lodge £1 million surety with a high street bank or building society for a five year period. The Council would be paid interest on its £1 million investment and this sum would be returned to the local authority – less any money that has been used through acting as guarantee to any mortgage defaulters – at the end of five years.
25. Part of the new scheme will be in ensuring that the necessary safeguards are put in place to protect the Council's interests and minimise the risks of defaulting by ensuring that mortgages are only granted to those potential homeowners who are clearly able to meet the monthly payments associated with the mortgage they are wishing to secure. All applicants will have to demonstrate that they are able to make the repayments as stringently as they would normally have to do with any mortgage application to a bank or building society.

LEGAL IMPLICATIONS

26. Sector Treasury Service Ltd who set up the original pilot scheme has obtained Counsel's opinion on the legality of the scheme, as attached in Appendix B. The advice has been obtained on behalf of all participating Local Authorities. Advice on the State Aid was obtained and a summary of the position is attached in Appendix C.
27. It is a legal requirement of the LAMS scheme that, before some of the High Street Lenders will enter into an agreement with a Local Authority the Local Authority Monitoring Officer must provide an Opinion Letter confirming that the Authority has the power to enter into, observe and perform the terms and obligations required of it under the Scheme. The Authority will also be required to indemnify the Monitoring Officer in respect of any personal liability he or she may incur by providing the Opinion Letter. Both the Opinion Letter and the Monitoring Officer's Indemnity Deed will be in a prescribed form and, in addition to the resolution required to enter into the Mortgage Scheme Indemnity Deed, the Local Authority will need to ensure that there is a suitable resolution or other form of authority for the grant of the Monitoring Officer's Indemnity Deed.
28. The above only applies to certain banks and if necessary these checks will be made over the 8-12 week introductory phase.
29. The economy is a changing environment and consequently further legal and/or accounting advice may be required during the life of the LAMS. To ensure consistency, it is anticipated that Sector Treasury Services Ltd will obtain updated advice on behalf of participating authorities. Any additional fees incurred in this respect will be agreed with all parties in advance.
30. If the Council decides to participate in the LAMS, they should initially agree the criteria required to qualify for the scheme. It is suggested that for the Isle of Wight the local criteria are:
 - The maximum limit for the total indemnity to be offered under the scheme is £1 million;
 - The maximum loan size is £120,000 (based on maximum property valuation); and

- The qualifying post codes will be all of those which cover the Isle of Wight
31. The mortgage lender should manage the operational side of the scheme without any direct input from the Local Authority. Sector Treasury Services will undertake an annual audit of the scheme to ensure both parties are fully compliant with the agreement.

PROPERTY IMPLICATIONS

32. There are no property implications with regard to Council property assets that have identified to the introduction of a LAMs scheme

EQUALITY AND DIVERSITY

33. Section 149 of the Equality Act 2010 sets out the legal duties placed upon public bodies. The aim of this duty is to embed equality considerations into the day to day work of public authorities. Contained within the Equality Duty is a 'general duty' which requires public bodies to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct
 - prohibited by the Equality Act 2010;
 - Advance equality of opportunity between people who share a protected characteristic and people who do not;
 - Foster good relations between people who share a protected characteristic and people who do not.
34. Protected characteristics under the Equality Act 2010 include age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex and sexual orientation; marriage and civil partnership.
35. An Equality Impact Assessment (EIA) is attached. There are not considered to be any adverse Equality implications regarding the protected characteristics from the introduction of a LAMs scheme as all applicants will be treated equally regardless of characteristic. As with any other mortgage, a successful application will be based on the applicant's ability to meet the lenders requirements.
36. The Director of Resources has advised that because the money invested will be returned it is not be considered to be a significant resource issue requiring a second-stage EIA evaluation.

SECTION 17 CRIME AND DISORDER ACT 1998

37. There are no Section 17 of the Crime And Disorder Act 1998 implications of introducing these recommendations

OPTIONS

38. The following options could be considered:

Option 1: - That the Local Authority adopts the LAMS in accordance with the outline provided within this report, and approves the following:

- A total indemnity value of £1,000,000
- A maximum loan size for the authority of £120,000
- The qualifying post codes will be provided to the lender(s) in a schedule to the indemnity deed and that these will cover the whole of the Isle of Wight.
- That once the Monitoring Officer is satisfied with the validity of the scheme and had been indemnified accordingly; delegated Authority is given to the Strategic Director of Community Wellbeing and Social Care in consultation with The Cabinet Member for Adult Social Care and Housing to finalise the fine detail and the final introduction of the scheme.

Option 2: - That the Local Authority adopts the LAMS in accordance with the outline provided within this report, and approves:

- A total indemnity value of another figure to be agreed through the capital programme
- A maximum loan size for the authority of another figure
- The qualifying post codes will be provided to the lender(s) in a schedule to the indemnity deed and that these will cover specific areas of the Isle of Wight.
- That once the Monitoring Officer is satisfied with the validity of the scheme and had been indemnified accordingly; delegated Authority is given to the Strategic Director of Community Wellbeing and Social Care in consultation with The Cabinet Member for Adult Social Care and Housing to finalise the fine detail and the final introduction of the scheme.

Option 3:- Do nothing.

39. RISK MANAGEMENT

There are a number of potential risks associated with the scheme, and a Risk Assessment, outlining the key risks and potential mitigating controls is attached in Appendix D.

40. RECOMMENDATION

- That the Local Authority adopts the LAMS in accordance with the outline provided within this report, and approves the following:
- A total indemnity value of £1,000,000
- A maximum loan size for the authority of £120,000
- The qualifying post codes will be provided to the lender(s) in a schedule to the indemnity deed and that these will cover the whole of the Isle of Wight.
- That the local Authority indemnifies the Monitoring Officer in relation to the provision by the Monitoring Officer of an Opinion letter, should such an Opinion letter be required.
- That delegated Authority is given to the Strategic Director Community Wellbeing and Social Care in consultation with The Cabinet Member for Adult Social Care and Housing to finalise the fine detail and final introduction of the scheme including the finalising of any legal arrangements as set out in paragraph 27 of this report.

41. APPENDICES ATTACHED

- [Appendix A](#): The Local Authority Mortgage scheme detailed description.
- [Appendix B](#): The legislative framework and outline of policy and commercial issues that the Council should consider when deciding how to implement
- [Appendix C](#): Summary of the position with Regard to State Aid
- [Appendix D](#): Risk Assessment
- [Appendix E](#): EIA

Contact Points

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Decision

Signed

Date
